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SUBJECT: GNU CONTEMPLATES DIRECT BUDGET SUPPORT TO GOSS

REF: KHARTOUM 185

11. (SBU) SUMMARY: According to GOSS Minister for Finance Kuol Athian Mawien, GNU Finance Minister Awad al Jaz has endorsed a draft proposal for direct budget support to the Government of Southern Sudan following two days of negotiations with his GOSS ministerial counterpart and the Fiscal Financial Allocations and Monitoring Commission (FFAMC) Chairman Mohammed Osman Ibrahim. Because a final decision on this will not be forthcoming from President Bashir until the end of February, GOSS President Salva Kiir is planning to travel to the UAE to seek bilateral financing via development loans, while the GOSS continues to pursue commercial loan packages from banks in the region, including Citibank. One immediate dividend from the GNU/GOSS economic talks: the GNU has released US\$100 million in arrears to the South, enabling Juba to issue January back-pay to the totality of the region's civil service. The GOSS does not appear to have begun serious consideration of austerity measures, which is troubling. END SUMMARY.

Budget Support for the GOSS

12. (SBU) GOSS Minister for Finance Mawien met with ConGen PolOff and Acting USAID Southern Sudan Director February 18 to discuss the GOSS budget crisis and review options through which a USAID-facilitated "Fiscal Forum" could assist the GOSS in identifying and implementing various austerity measures. Mawien said he had recently concluded negotiations with Government of National Unity (GNU) Finance Minister Awad al Jaz and the Fiscal Financial Allocations and Monitoring Commission (FFAMC) Chairman Chairman Dr. Mohammed Osman Ibrahim to secure Khartoum's release of 2008 arrears owed to Juba (GNU Finance Ministry officials confirmed the same story to CDA Fernandez on February 19). The GNU presently owes Juba an estimated US\$265 million in revenue transfers. Mawien successfully persuaded Al Jaz to release US\$100 million of that total on February 16, enough to cover all of the South's civil service salaries for one month. With projected oil revenues able to meet only eight percent of the February GOSS budget (reftel), Juba needs every last cent it can get.

13. (SBU) Al Jaz refused to release the remaining balance owed to Juba, citing the GNU's own economic woes. He claimed that he could make three disbursements of US\$50 million per month starting in February. Mawien retorted that the offer was insufficient (these arrears date to the 2008 fiscal year) and countered that the NCP is undermining its electoral chances if it does not act to swiftly assist Juba during its time of need. "The average Southerner will not understand that this is a global economic crisis. They will assume it is a conspiracy by Khartoum, and that the NCP is acting to sink the SPLM," Mawien told him. Not only would it undermine the CPA and cement the outcome of the 2011 Referendum, he continued, but also it would translate into a readily-understood campaign slogan during the elections. According to Mawien, the FFAMC Chairman was

particularly swayed by this argument, and responded favorably to Mawien's pitch that the GNU provide direct budget support to Juba for a three-month period "as a means of making unity attractive."

¶4. (SBU) The GOSS Finance Minister claimed a reluctant Al Jaz was repeatedly steered back to the possibility of direct budget support by FFAMC Chairman Ibrahim, and that al Jaz eventually agreed to draft a letter to President Bashir urging that a decision on this budget support proposal be made during the next meeting of the GNU Presidency. The deal would cover GOSS payroll needs for a three-month period. (NOTE: The next GNU Presidency meeting, slated for the end of February, is set for Juba - a first in the history of post-CPA Sudan. END NOTE.)

¶5. (SBU) Mawien said that upon his return to Juba he briefed Kiir on his success. Although the GOSS President was relieved to hear of Al Jaz's support, he directed Mawien to continue seeking the release of the remaining arrears in advance of Kiir's next meeting with Bashir and VP Taha, so as to unclutter an already full agenda on CPA implementation issues (to include border demarcation, census, forex stand-off, and Abyei.)

Possible UAE Loans

¶6. (SBU) Although cautiously optimistic about NCP willingness to follow-through with direct budget support despite Al Jaz's notorious back-peddling on past commitments to the SPLM, Mawien said he and Kiir plan to travel to the United Arab Emirates in late March to follow-up on a yet-unfulfilled 2007 commitment by Abu Dhabi to provide a robust package of development assistance loans for the South. "If we do not succeed in that effort, we will attempt to secure commercial assistance," he added in response to queries about

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potential GOSS austerity measures.

Salaries Before Development

¶7. (SBU) While it remained unspoken, Mawien's emphasis on loans for the development sector amplified past comments by GOSS officials indicating that Juba may shift what funding it now has away from development initiatives in an attempt to meet payroll costs instead. The Minister repeatedly stressed during the meeting that he would like to see as many donor projects completed as possible in 2009, presumably to make up for what the GOSS will no longer be able to do on its own. Discussions were already occurring, he said, with the Multi Donor Trust Fund Oversight Committee to expedite Phase Two funds disbursement. (NOTE: Joint Donor Office Head Michael Elmquist was pressed by MDTF member states on February 12 to front-load donor assistance in order to give the GOSS time to accrue the funds necessary for cost-sharing without delaying project implementation. Currently, the MDTF does not generally release funds unless Juba meets two-thirds of a project's cost up front. END NOTE.)

ICC Indictment Provides SPLM No Leverage

¶8. (SBU) Mawien cautioned that the probable, forthcoming ICC indictment of President Bashir was unlikely to generate an avenue of opportunity for the SPLM's engagement with the NCP. The NCP continues to pressure the SPLM to defend Bashir with the international community, and views SPLM demurrals on the issue as antagonistic. "The NCP, like many in the international community, believes that the South has already disappeared into independence, and so they have abandoned commitments to making unity attractive," Mawien lamented.

COMMENT

¶9. (SBU) While GNU consideration of direct budget support to the South is interesting and will provide some temporary relief if implemented, Juba's emphasis on loans, rather than on the implementation of austerity measures, is troubling. Seven ministries overspent their budgets by an average of 224 percent in the first half of the 2008 fiscal year. While the GOSS has made commendable advances in its ability to track its budget since its establishment in 2005 (largely as a result of advisory assistance

provided by USAID,) Mawien does not yet have a firm plan for curbing rampant off-budget spending. Indeed, Mawien (and by extension Kiir) seem most focused on cobbling together a series of loans that help them survive month-to-month versus addressing the more systemic fiscal issues that have placed Juba in this crisis. Since the major cause of the crisis, the sharp decline in oil revenues, will not be changing any time soon, the GOSS needs to do more than hope for a handout from Khartoum. The budget crisis will soon turn into a potentially explosive social crisis if the situation is not managed carefully. We will urge the GOSS to look at ways of cutting-back spending, to include careful salary cuts, rather than driving itself deeply into debt and racking up salary arrears, which could lead to an erosion in confidence in the GOSS and provoke greater instability in an already volatile South Sudan.

FERNANDEZ